Comment Letter for File Number S7-08-22 Short Position and Short Activities Reporting by Institutional Investment Managers

Hello,

My name Is Troy Parson, Project Manager for a commercial general contractor. I am an investor with a 401K and active retail brokerage account. I hold an undergraduate degree in Food & Resource Economics, with specializations in marketing and management from the University of Florida. I have been investing long enough to remember the nuances of the subprime mortgage crisis when under-regulated derivatives and markets destroyed the wealth of lower and middle-class Americans. I'm writing to you today with my concerns about the current state of short position disclosure.

Short position disclosures have notable information asymmetries. These are detrimental to retail investors, the underlying company, and the economy at large. This lack of transparency seems intentional, as many counterparties profit from it. Market makers, funds who participate in short-selling, and institutional shareholders who lend shares, all make enormous profits based on this opaque status quo. Unfortunately, the current disclosure rules that are meant to inhibit bad actors are insufficient and not sound, as they can easily be defrauded. See the SEC's 2013 publication *"Strengthening Practices for Preventing and Detecting Illegal Options Trading Used to Reset Reg SHO Close-out Obligations"*.

With regard to the SEC's mission statement (assuming ceteris paribus and the laws of supply-and-demand) we have several deviations from that mission and overall vision of the SEC. These deviations continually occur, and in my opinion, are strongly correlated with abuses in the current rules applied to short position disclosure.

> *The mission of the SEC is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC strives to promote a market environment that is worthy of the public's trust.*

Protect Investors; (Assuming the term "Investors" excludes speculators, short sellers, and manipulators) There is a very strong argument that the SEC has completely failed to deliver on this. If by "Investors" the SEC is referring to large institutional holders who lend shares to short sellers, perhaps they are fulfilling their promise, but at the cost of retail investors, the underlying company, and the economy at large. Share lending is a highly profitable venture generating a reported $7.66 billion for lenders in 2020. This figure does not include the revenue generated by the short sellers themselves, only the fees they paid for the privilege to borrow and short sell. This is the heart of short selling and short selling disclosure abuse.

Maintain fair, Orderly, and Efficient markets; This is perhaps the largest of the failures with the most impact on the SEC's mission statement items. There is currently very little that is fair about the market structure of today. Retail Investors are effectively forced to route trades though the payment for order flow (PFOF) pipeline. These trades are subject to a number of devious practices that include internalization, high frequency front-running, dark pool order routing, fulfillment with synthetic shares or IOU's. These orders rarely make it to the lit markets and do almost nothing for price improvement. Furthermore, as a result of these activities, the national best bid and offer is violated continuously. This has resulted in a highly slanted playing field with all of the advantages going towards the largest institutions.

With respect to the *"Orderly"* initiative, there needs to be improvement in this area. We are currently experiencing a multitude of information asymmetries among financial news outlets with outstanding short interests. Reporting exemptions for "family funds" and aspects of self-reporting create huge conflicts of interest, and call into question the validity of the data in its entirety. These activities appear to be correlated to the DTCC's inability to avoid daily failures to deliver "general settlement fail, depending on how you measure it could be somewhere around Three percent" (2:53-3:01), he goes on to say "Three percent of trades fail to deliver or get DKed".

Efficiency of markets, as it applies to short position disclosure, is highly fraught. The current system seems efficient at extracting capital from markets and hiding the repurchase obligations in swaps and options. It's important not to confuse the volume of trades with the quality of trades. In the most efficient market the middle man's profits would be driven to zero. However, we have the opposite of a competitive market, with market makers acting as gatekeepers taking huge profits at the expense of the investor and underlying company.

Facilitate Capital Formation; there appears to be little reason to participate in traditional markets, as we witness such widespread theft and fraud can occur without repercussion. Additionally, seeds of discontent are sewn everyday, through the mockery of retail investors on major news networks and print media.

The SEC strives to promote a market environment that is worthy of the public's trust; at this point the SEC is losing the battle to earn the public's trust. Look no further than the crypto currency markets and the move away from traditional finance. Unreliable short position information is more fuel for the fire. The issue needs to be addressed, and we need reform. It's a shame that our policy making tends to be reactive and not proactive. I understand the legal constraints of the current SEC, but fear we are about to see a major economic downturn due to all of the negative externalities being produced by the current system. We should remain hopeful that the SEC can produce meaningful change. The state of the American working class depends on it.

Cited Sources

Information asymmetries;
https://www.nobelprize.org/prizes/economic-sciences/2001/press-release/

[Strengthening Practices for Preventing and Detecting Illegal Options Trading Used to Reset Reg SHO Close-out Obligations](https://www.sec.gov/about/offices/ocie/options-trading-risk-alert.pdf); https://www.sec.gov/about/offices/ocie/options-trading-risk-alert.pdf

reported $7.66 billion for lenders in 2020;https://datalend.com/datalend-7-66-billion-in-revenue-generated-in-lender-to-broker-securities-lending-market-in-2020/

general settlement fail, depending on how you measure it could be somewhere around Three percent;https://www.dtcc.com/dtcc-connection/articles/2022/august/02/improving-settlement-rates-by-ignoring-them